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**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA**

**WASHINGTON PARISH COUNCIL
FRANKLINTON, LOUISIANA**

**ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2000**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6-6-01

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA**

**Washington Parish Council
Franklinton, Louisiana**

**General Purpose Financial Statements
As of and for the Year Ended December 31, 2000
With Supplemental Schedules**

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**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA**

**Washington Parish Council
Franklinton, Louisiana**

**General Purpose Financial Statements
As of and for the Year Ended December 31, 2000
With Supplemental Schedules**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Mount Hermon Water District of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana

We have audited the accompanying general purpose financial statements of the Mount Hermon Water District of the Parish of Washington, Louisiana, a component unit of the Washington Parish Council, as of December 31, 2000, and for the year then ended, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Mount Hermon Water District of the Parish of Washington, Louisiana, as of December 31, 2000, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2001, on our consideration of the Mount Hermon Water District of the Parish of Washington, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The schedules listed on the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of Mount Hermon Water District of the Parish of Washington, Louisiana. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.


Bruce Harrell & Company, CPAs
A Professional Accounting Corporation

March 26, 2001

**Mount Hermon Water District
Washington Parish Council
Balance Sheet - Proprietary Fund Type
December 31, 2000**

Assets

Current Assets:

Cash	\$ 10,428
Accounts Receivable (Net)	6,072
Accrued Billings	5,513
Total Current Assets	<u>22,013</u>

Restricted Assets:

Cash - RUS Depreciation & Contingency Fund	10,581
Cash - RUS Bond Reserve Fund	14,507
Total Restricted Assets	<u>25,088</u>

Property, Plant and Equipment:

Land	3,890
Water System	1,603,212
Total Property, Plant and Equipment	<u>1,607,102</u>
Less: Accumulated Depreciation	(152,963)
Net Property, Plant and Equipment	<u>1,454,139</u>

Other Assets:

Utility Deposits	220
Total Other Assets	<u>220</u>
Total Assets	<u>\$ 1,501,460</u>

Continued on the following page

The accompanying notes are an integral part of these statements.

**Mount Hermon Water District
Washington Parish Council
Balance Sheet - Proprietary Fund Type
December 31, 2000**

Liabilities and Fund Equity**Liabilities:****Current Liabilities (Payable From Current Assets):**

Accounts Payable	\$ 1,919
Sales Tax Payable	297
Total Current Liabilities (Payable From Current Assets)	<u>2,216</u>

Current Liabilities (Payable From Restricted Assets):

Customer Deposits Payable	3,380
Current RUS Bond Payable	8,139
Accrued RUS Bond Interest	1,899
Total Current Liabilities (Payable From Restricted Assets)	<u>13,418</u>

Long-Term Liabilities:

RUS Bonds Payable	721,302
Total Long-Term Liabilities	<u>721,302</u>
Total Liabilities	<u>736,936</u>

Fund Equity:

Contributed Capital	897,237
Less: Accumulated Amortization	(81,662)
Net Contributed Capital	<u>815,575</u>

Retained Earnings:

Reserved for RUS Bond Depreciation and Contingency	10,581
Reserved for RUS Bond Reserve Fund	14,507
Unreserved Retained Earnings (Deficit)	(76,139)
Total Retained Earnings (Deficit)	<u>(51,051)</u>
Total Fund Equity	<u>764,524</u>
Total Liabilities and Fund Equity	<u><u>\$ 1,501,460</u></u>

(Concluded)

The accompanying notes are an integral part of these statements.

Mount Hermon Water District
Washington Parish Council
Statement of Revenues, Expenses and Changes in Unreserved Retained Earnings
Proprietary Fund Type
Year Ended December 31, 2000

Operating Revenues

Water Sales	\$ 89,984
Installation Fees	5,510
Penalties	2,278
Safe Drinking Water Fees	460
Interest Income	462
Miscellaneous Revenue	1,660
Total Operating Revenues	<u>100,354</u>

Operating Expenses

Accounting	2,143
Bad Debt	226
Depreciation Expense	40,080
Dues and Permits	309
Insurance	2,323
Maintenance Supplies	490
Operations and Maintenance - Contract	28,699
Per diem - Board Members	1,500
Plant Maintenance	356
Postage	8
Repairs and Maintenance	245
Telephone	7
Travel	24
Truck Expense	101
Utilities	4,445
Total Operating Expenses	<u>80,956</u>

Operating Income (Loss)19,398**Non-Operating Revenues (Expenses)**

Recovery of Bad Debts	328
Interest Expense	(36,644)
Total Non-Operating Revenues (Expenses)	<u>(36,316)</u>

Net Income (Loss)

(16,918)

Unreserved Retained Earnings (Deficit) - Beginning of Year

(75,541)

Amortization of Contributed Capital

21,303

(Increase) Decrease in Reserved Retained Earnings:

Reserved for Bond Payments	(2,500)
Reserved for Bond Depreciation	(2,483)

Unreserved Retained Earnings (Deficit) - End of Year\$ (76,139)

The accompanying notes are an integral part of these statements.

Statement C

**Mount Hermon Water District
Washington Parish Council
Statement of Cash Flows-Proprietary Fund Type
Year Ended December 31, 2000**

Cash Flows from Operating Activities

Operating Income	\$ 19,398
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	40,080
Changes in Accounts Receivable	(1,137)
Changes in Accrued Billings	(1,402)
Changes in Accounts Payable	(989)
Changes in Sales Tax Payable	113
Changes in Customer Deposits Payable	1,315
Changes in Accrued RUS Bond Interest	(423)
Net Cash Provided by Operating Activities	<u>56,955</u>

Cash Flows From Noncapital Financing Activities

Recovery of Bad Debts	328
Net Cash Provided by Noncapital Financing Activities	<u>328</u>

Cash Flows from Capital and Related Financing Activities

Bond Principal Repayment - RUS Bond	(7,359)
Interest Payments - RUS Bond	(36,644)
Refund of Customer Contributions	(50)
Net Cash Used by Capital and Related Financing Activities	<u>(44,053)</u>

Net Cash Increase	13,230
Cash, Beginning	22,286
Cash, Ending	<u>\$ 35,516</u>

The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

**Notes to the Financial Statements
As of and for the Year Ended December 31, 2000**

INTRODUCTION

Mount Hermon Water District of the Parish of Washington, State of Louisiana was established July 23, 1986, by an ordinance of the Washington Parish Council. The ordinance, enacted pursuant to Chapter 8 of Title 33 of the Louisiana Revised Statutes of 1950, and other constitutional and statutory authority supplemented thereto, describes and defines the boundaries of the water district, and provides for a 5-member governing board of commissioners appointed by the Washington Parish Council.

Mount Hermon Water District was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

Construction of the water system plant and equipment for the water system was financed under a loan/grant program from the United States Rural Utilities Service (RUS) office, with construction completed in March, 1997. Mount Hermon Water District, as of December 31, 2000, serves 291 water customers. The district contracts the operation and maintenance of the water system, including billings of water customers, to an outside agent.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying general purpose financial statements of the Mount Hermon Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. REPORTING ENTITY

The district is a component unit of the Washington Parish Council, the financial reporting entity. The council is financially accountable for the district because it appoints a voting majority of the board and has the ability to impose its will on them.

The accompanying financial statements present information only on the funds maintained by the district and do not present information on the council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

C. FUND ACCOUNTING

The Mount Hermon Water District of the Parish of Washington, Louisiana is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprise its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

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OF THE
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**Notes to the Financial Statements
(Continued)
As of and for the Year Ended December 31, 2000**

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The Enterprise Fund uses the following practices in recording certain revenues and expenses:

Revenues

Fees for water services are recorded as revenues after the meters are read. All other revenues are recorded when the service has been provided.

Expenditures

All operating expenses, except depreciation, are recorded when they are incurred. Depreciation is recorded each month over the life of the asset.

E. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the district may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

Under state law, the district may invest in United States bonds, treasury notes, or certificates. These are classified as investments if the original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Investments, if any, are stated at fair value.

F. INVENTORIES

Purchase of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

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**Notes to the Financial Statements
(Continued)
As of and for the Year Ended December 31, 2000**

G. PREPAID ITEMS

Purchase of items regarded as having a future economical use are expensed when purchased, and prepaid amounts for such items are not recorded as assets at the close of the fiscal year.

H. RESTRICTED ASSETS

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

I. FIXED ASSETS

Fixed assets of the district are included on the balance sheet of the fund. Interest costs incurred during construction are capitalized. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of 20 to 40 years for water systems and 5 to 10 years for equipment.

J. COMPENSATED ABSENCES

At December 31, 2000, the district did not have employees that accumulate or vest benefits.

K. LONG-TERM LIABILITIES

Long-term liabilities are recognized within the Enterprise Fund.

L. FUND EQUITY

Contributed Capital

Grants, entitlements, or shared revenues received that are restricted for the acquisition or construction of capital assets are recorded as contributed capital. Contributed capital is amortized based on the depreciation recognized on that portion of the assets acquired from such contributions. This amortization is closed to the contributed capital account.

Reserves

Reserves represent those portions of fund equity legally segregated for a specific future use.

**MOUNT HERMON WATER DISTRICT
OF THE
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Washington Parish Council
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**Notes to the Financial Statements
(Continued)
As of and for the Year Ended December 31, 2000**

M. USE OF ESTIMATES

The preparation of financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

At December 31, 2000, the district has cash and cash equivalents (book balances) totaling \$35,516, in Demand Deposits at one bank.

These deposits are stated at cost, which approximates market value. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 2000, the district had \$34,155 in collected bank balances, protected by \$100,000 of federal deposit insurance.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent has failed to pay deposited funds upon demand.

3. RECEIVABLES

The following is a summary of receivables at December 31, 2000:

Current	\$ 5,208
31 - 60	744
61 - 90	115
Over 90	<u>5</u>
Total	\$ <u><u>6,072</u></u>

All customer receivables are reported at gross value and are periodically reduced by the portion that is expected to be uncollectible. The board of commissioners of the Mount Hermon Water District reviews past due accounts and authorizes the write-off of uncollectible amounts directly against the accounts receivable account. At fiscal year-end, the district had not established an allowance for uncollectible accounts, since the amount of uncollectible accounts at December 31, 2000, was determined to be immaterial.

**MOUNT HERMON WATER DISTRICT
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Washington Parish Council
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**Notes to the Financial Statements
(Continued)**

As of and for the Year Ended December 31, 2000

Estimated unbilled revenues (accrued billings) are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following close of the fiscal year. At December 31, 2000, Mount Hermon Water District recorded accrued billings of \$5,513.

4. FIXED ASSETS

A summary of fixed assets at December 31, 2000, follows:

Description	Life Yrs	Cost	Accumulated Depreciation	Net	Depreciation Current
Land	-	\$ 3,890	\$ -	\$ 3,890	\$ -
Water System	40	1,603,212	152,963	1,450,249	40,080
Totals		<u>\$1,607,102</u>	<u>\$ 152,963</u>	<u>\$ 1,454,139</u>	<u>\$ 40,080</u>

The water system, financed under the United States Department of Agriculture, Rural Utilities Service Loan/Grant program, became operational in March of 1997. Equipment, furniture, and fixtures are depreciated using the useful lives of 5 to 10 years, and the water distribution system uses a useful life of 40 years. All assets are depreciated by the straight-line method. Total depreciation expense of \$40,080 was recorded for the fiscal year ending December 31, 2000.

5. LONG-TERM DEBT

The following is a summary of bond transactions of the Mount Hermon Water District of the Parish of Washington, Louisiana for the year ended December 31, 2000:

Description	Long-Term Liabilities Payable at Beginning of Year	Additions	Deletions	Long-Term Liabilities Payable at End of Year
1996 RUS Water Revenue Bonds	\$ 736,800	\$ -	\$ (7,359)	\$ 729,441
Total	<u>\$ 736,800</u>	<u>\$ -</u>	<u>\$ (7,359)</u>	<u>\$ 729,441</u>

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

**Notes to the Financial Statements
(Continued)
As of and for the Year Ended December 31, 2000**

Bonds Payable at December 31, 2000, are comprised of the following current and long-term amounts:

	Current Amount 12/31/00	Long-Term Amount 12/31/00	Total Principal Balance 12/31/00
1996 Revenue Bonds:			
\$754,000 utility bonds, dated 2/08/96; due in monthly installments of \$3,702 through Feb. 6, 2036; interest at 5.0%	<u>\$ 8,139</u>	<u>721,302</u>	<u>\$ 729,441</u>

The annual requirements to amortize all debt outstanding as of December 31, 2000, including interest payments of \$832,803 are as follows:

Year Ending December 31,	1996 RUS Water Revenue Bonds \$754,000
2001	\$ 44,424
2002	44,424
2003	44,424
2004	44,424
2005	44,424
2006-2010	222,120
2011-2015	222,120
2016-2020	222,120
2021-2025	222,120
2026-2030	222,120
2031-2036	222,120
2036	7,404
	<u>\$ 1,562,244</u>

**MOUNT HERMON WATER DISTRICT
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**Notes to the Financial Statements
(Continued)
As of and for the Year Ended December 31, 2000**

6. FLOW OF FUNDS, RESTRICTIONS ON USE

As of December 31, 2000, the Mount Hermon Water District of the Parish of Washington, State of Louisiana, has one Rural Utilities Service (RUS) Revenue Bond. The total bond amount of \$754,000 was issued February 8, 1996, at an interest rate of 5.0%. The original bond resolution specifies that the bonds shall be secured and payable in principal and interest exclusively by a pledge of the income and revenues derived or to be derived from the operation of the system. Other specific legal requirements and bond restrictions are summarized below:

- a) The issuer, the Mount Hermon Water District of the Parish of Washington, State of Louisiana, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

For the fiscal year ending December 31, 2000, the bond debt coverage factor was 136%, as compared to 109% for the fiscal year ending December 31, 1999, which is above the percentage required by the bond covenant of 120%.

- b) The establishment and maintenance of a "Water Bond and Interest Sinking Fund" (the Sinking Fund) sufficient in amount to pay promptly and fully the principal and interest on the bonds.

The actual creation of a sinking fund was not required since the district pays required bond installments directly to Rural Utilities Service, on a monthly basis. At December 31, 2000, Mount Hermon Water District had made the required monthly installments.

- c) The establishment of the "Water Revenue Bond Reserve Fund" (the Reserve Fund) by transferring from the Water Revenue Fund, the operating account of the district, monthly in advance on or before the 20th of each month a sum at least equal to five per cent (5%) of the amount to be paid each month for bond principal and interest payments. The actual amount to be transferred for bonds outstanding at December 31, 2000, per the RUS Letter of Conditions, was a total of \$185 per month. Deposit of funds shall continue until such time as there has been accumulated in the Reserve Fund an amount of money equal to the highest combined principal and interest requirements of any succeeding twelve month period. The money in the Reserve Fund is required to be retained solely for the purpose of paying the principal and interest on bonds payable, upon approval by the Rural Utilities Service office, for which there would otherwise be default. Deposits to the Reserve Fund were required to commence with the month following completion and acceptance of the improvements and extensions financed with the proceeds of the bonds. The system improvements financed with the 1996 Revenue Bonds became revenue producing during March, 1997.

The district made all of the required deposits to the Reserve Fund, maintaining a balance of \$14,507, at December 31, 2000.

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**Notes to the Financial Statements
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- d) The establishment and maintenance of the "Water Depreciation and Contingency Fund" (the Contingency Fund) to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the System, by transferring from the Water Revenue Fund, the operating account of the district, monthly in advance on or before the 20th of each month the sum of \$191 per month. Money in the Contingency Fund may also be used, upon approval, to pay the principal and interest on any bond for which there is not sufficient money in the Sinking Fund or the Reserve Fund.

The district made all of the required deposits to the Depreciation and Contingency Fund, maintaining a balance of \$10,581 at December 31, 2000.

- e) The district, in the original bond resolution also obligated itself to abide by the following covenants:
1. The district will shut off service if the delinquent charge, with interest and penalties accrued thereon, is not paid within fifteen days from the date on which such charges became delinquent.
 2. A penalty of 10% will be charged on all delinquent accounts, and interest at a reasonable rate as established by the district, as well as payment of a reasonable reconnect charge for the resumption of services.
 3. The district agrees to maintain the System in first class repair and working order and condition.
 4. The district will carry full insurance coverage on the System in the manner required by the Government, with a company licensed to do business under the laws of Louisiana.
 5. The district will maintain separate and correct records and accounts, and will have the books audited no later than three months after the end of the fiscal year.
 6. The district will not sell, lease or in any manner dispose of the System or any substantial part thereof, provided the district may dispose of property that in its judgement is worn-out, unserviceable, unsuitable, or unnecessary in the operation of the System.
 7. The district will not, except as provided by this bond resolution, voluntarily create or cause to be created any debt, lien pledge, mortgage, assignment, or any other charges having priority or parity with the liens of the Bonds upon the income and revenues of the System pledged as security therefor.
 8. That, to the extent permitted by law, the district will not grant a franchise to any utility for operation within the boundaries of the district.
 9. In operation of the System, the district will require all officers and employees in a position of authority or in possession of money derived from operations of the System to be covered by a blanket fidelity bond or faithful performance bond.

The current rate schedule, the schedule of insurance coverages (Item # 4) and fidelity bond coverages (Item # 9) are disclosed in the "Supplemental Information" schedules included as a part of this audit report. Non-compliance was not noted in the review of the remaining bond covenants.

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**Notes to the Financial Statements
(Continued)
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7. FUND EQUITY

Reserved Retained Earnings is created in conjunction with the issuance of revenue bonds and is funded by transfers from the revenue account, based on assets held by the water district that are restricted for bond payments. The purpose of the reserved retained earnings is to service the revenue bonds. Reserved Retained Earnings totaled \$25,088 at December 31, 2000.

8. DEFICIT UNRESERVED RETAINED EARNINGS

The water district has an unreserved retained earnings deficit of \$(76,139) for the fiscal year ending December 31, 2000. The deficit represents an increased deficit of \$598 from the \$(75,541) deficit reported at December 31, 1999. Management of Mount Hermon Water District implemented a rate increase during May of 1999 and will continue to monitor the level of revenues and expenses to determine the adequacy of the existing rate structure.

9. WATER SYSTEM MANAGEMENT

The water district is operated under a contract with an outside party. The contract management provides services for operation and maintenance of the system, including billing services for the water district.

SUPPLEMENTAL INFORMATION

Schedule 1

**Mount Hermon Water District
Washington Parish Council
Comparative Balance Sheet -Proprietary Fund Type
December 31, 2000 and 1999**

Assets	Enterprise Fund	
	2000	1999
Current Assets:		
Cash	\$ 10,428	\$ 2,180
Accounts Receivable (Net)	6,072	4,935
Accrued Billings	5,513	4,111
Total Current Assets	<u>22,013</u>	<u>11,226</u>
Restricted Assets:		
Cash - RUS Depreciation & Contingency Fund	10,581	8,098
Cash - RUS Bond Reserve Fund	14,507	12,008
Total Restricted Assets	<u>25,088</u>	<u>20,106</u>
Property, Plant and Equipment:		
Land	3,890	3,890
Water System	1,603,212	1,603,212
Total Property, Plant and Equipment	<u>1,607,102</u>	<u>1,607,102</u>
Less: Accumulated Depreciation	<u>(152,963)</u>	<u>(112,883)</u>
Net Property, Plant and Equipment	<u>1,454,139</u>	<u>1,494,219</u>
Other Assets:		
Utility Deposits	220	220
Total Other Assets	<u>220</u>	<u>220</u>
Total Assets	<u>\$ 1,501,460</u>	<u>\$ 1,525,771</u>

Continued on the following page

The accompanying notes are an integral part of these statements.

Schedule 1 (Continued)

**Mount Hermon Water District
Washington Parish Council
Comparative Balance Sheet - Proprietary Fund Type
December 31, 2000 and 1999**

Liabilities and Fund Equity	Enterprise Fund	
	2000	1999
Liabilities:		
Current Liabilities (Payable From Current Assets):		
Accounts Payable	\$ 1,919	\$ 2,908
Sales Tax Payable	297	184
Total Current Liabilities (Payable From Current Assets)	2,216	3,092
Current Liabilities (Payable From Restricted Assets):		
Customer Deposits Payable	3,380	2,065
Current RUS Bond Payable	8,139	7,762
Accrued RUS Bond Interest	1,899	2,321
Total Current Liabilities (Payable From Restricted Assets)	13,418	12,148
Long-Term Liabilities:		
RUS Bonds Payable	721,302	729,038
Total Long-Term Liabilities	721,302	729,038
Total Liabilities	736,936	744,278
Fund Equity:		
Contributed Capital	897,237	897,287
Less: Accumulated Amortization	(81,662)	(60,359)
Net Contributed Capital	815,575	836,928
Retained Earnings:		
Reserved for RUS Bond Depreciation and Contingency	10,581	8,098
Reserved for RUS Bond Reserve Fund	14,507	12,008
Unreserved Retained Earnings (Deficit)	(76,139)	(75,541)
Total Retained Earnings (Deficit)	(51,051)	(55,435)
Total Fund Equity	764,524	781,493
Total Liabilities and Fund Equity	\$ 1,501,460	\$ 1,525,771

(Concluded)

The accompanying notes are an integral part of these statements.

**Mount Hermon Water District
Washington Parish Council
Proprietary Fund Type**

**Schedule of Revenues, Expenses and Changes in Unreserved Retained Earnings (Budget and Actual)
For the Year Ended December 31, 2000
And Actual for the Year Ended December 31, 1999**

	Enterprise Fund			
	2000 Budget	2000 Actual	Variance- Favorable (Unfavorable)	1999 Actual
Operating Revenues				
Water Sales	\$ 84,000	\$ 89,984	\$ 5,984	\$ 78,249
Installation Fees	3,800	5,510	1,710	3,610
Penalties	1,400	2,278	878	1,609
Safe Drinking Water Fees	-	460	460	-
Interest Income	240	462	222	374
Miscellaneous Revenue	360	1,660	1,300	280
Total Operating Revenues	<u>89,800</u>	<u>100,354</u>	<u>10,554</u>	<u>84,122</u>
Operating Expenses				
Accounting	2,500	2,143	357	2,858
Bad Debt	1,000	226	774	-
Bank Charges	120	-	120	76
Conventions and Seminars	-	-	-	64
Depreciation Expense	40,000	40,080	(80)	40,080
Dues and Permits	-	309	(309)	25
Insurance	2,400	2,323	77	2,103
Maintenance Supplies	-	490	(490)	-
Office Expenses	-	-	-	26
Operations and Maintenance - Contract	25,375	28,699	(3,324)	26,024
Per diem - Board Members	-	1,500	(1,500)	-
Plant Maintenance	-	356	(356)	-
Postage	-	8	(8)	-
Repairs and Maintenance	-	245	(245)	-
Telephone	-	7	(7)	-
Travel	-	24	(24)	-
Truck Expense	-	101	(101)	-
Utilities	4,800	4,445	355	3,794
Total Operating Expense	<u>76,195</u>	<u>80,956</u>	<u>(4,761)</u>	<u>75,050</u>
Operating Income (Loss)	<u>13,605</u>	<u>19,398</u>	<u>5,793</u>	<u>9,072</u>
Non-Operating Revenue (Expenses)				
Recovery of Bad Debts	-	328	328	-
Interest Expense	(36,975)	(36,644)	331	(37,036)
Total Non-Operating Revenues (Expenses)	<u>(36,975)</u>	<u>(36,316)</u>	<u>659</u>	<u>(37,036)</u>

Continued on the following page

The accompanying notes are an integral part of these statements.

Mount Hermon Water District
Washington Parish Council
Proprietary Fund Type
Schedule of Revenues, Expenses and Changes in Unreserved Retained Earnings (Budget and Actual)
For the Year Ended December 31, 2000
And Actual for the Year Ended December 31, 1999

	Enterprise Fund			
	<u>2000</u> <u>Budget</u>	<u>2000</u> <u>Actual</u>	<u>Variance-</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>1999</u> <u>Actual</u>
Net Income (Loss)	\$ <u>(23,370)</u>	\$ (16,918)	\$ <u>6,452</u>	\$ (27,964)
Unreserved Retained Earnings (Deficit) - Beginning of Year		(75,541)		(67,989)
Amortization of Contributed Capital		21,303		21,303
(Increase) Decrease in Reserved Retained Earnings:				
Reserved for Bond Payments		(2,500)		(2,452)
Reserved for Bond Depreciation		(2,483)		1,561
Unreserved Retained Earnings (Deficit) - End of Year		\$ <u>(76,139)</u>		\$ <u>(75,541)</u>

(Concluded)

The accompanying notes are an integral part of these statements.

Schedule 3

Mount Hermon Water District
Washington Parish Council
Comparative Schedule of Cash Flows-Proprietary Fund Type
Years Ended December 31, 2000 and 1999

	<u>12/31/00</u>	<u>12/31/99</u>
Cash Flows From Operating Activities		
Operating Income	\$ 19,398	\$ 9,072
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	40,080	40,080
Changes in Accounts Receivable	(1,137)	(934)
Changes in Accrued Billings	(1,402)	(655)
Changes in Accounts Payable	(989)	(27)
Changes in Sales Tax Payable	113	42
Changes in Customer Deposits Payable	1,315	800
Changes in Accrued RUS Bond Interest	(423)	(2,883)
Net Cash Provided by Operating Activities	<u>56,955</u>	<u>45,495</u>
Cash Flows From Noncapital Financing Activities		
Recovery of Bad Debts	328	-
Net Cash Provided by Noncapital Financing Activities	<u>328</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Bond Principal Payment - RUS Bond	(7,359)	(8,209)
Interest Payments - RUS Bond	(36,644)	(37,036)
Refund of Customer Contributions	(50)	-
Net Cash Used by Capital and Related Financing Activities	<u>(44,053)</u>	<u>(45,245)</u>
Net Cash Increase	13,230	250
Cash, Beginning	22,286	22,036
Cash, Ending	\$ <u><u>35,516</u></u>	\$ <u><u>22,286</u></u>

The accompanying notes are an integral part of these statements.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 4

**SCHEDULE OF COMPENSATION PAID TO BOARD MEMBERS
For the Year Ended December 31, 2000**

The schedule of compensation paid board members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

<u>Name</u>	<u>Amount</u>
Bill Estes, President	\$ 300
Everette Roberts, Vice-President	300
Buddy Holmes, Secretary/Treasurer	300
Avant Vernon, Board Member	300
Tim Porter, Board Member	300
	<u>\$ 1,500</u>

<u>Board of Commissioners</u>	<u>Address</u>	<u>Term of Office</u>
Bill Estes, President	38009 Bennie Morris Rd Mt. Hermon, LA 70450	Expires Dec. 31, 2002
Everette Roberts, Vice-President	36095 Thomas Cryer Rd. Mt. Hermon, LA 70450	Expires Dec. 31, 2002
Buddy Holmes, Secretary/Treasurer	36093 Hwy. 38 Mt. Hermon, LA 70450	Expires Dec. 31, 2004
Avant Vernon, Board Member	27285 Mt. Pisgah Rd. Mt. Hermon, LA 70450	Expires Dec. 31, 2000
Tim Porter, Board Member	30142 Highway 450 Mt. Hermon, LA 70450	Expires Dec. 31, 2001

The accompanying notes are an integral part of this statement.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 5

**SCHEDULE OF INSURANCE
For the Year Ended December 31, 2000**

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount</u>	<u>Period</u>
American Central Insurance Company Policy # MEK490348	General Aggregate Limit (other than Products / Completed Operations)	\$200,000	2/01/00 - 2/01/01
	Products / Completed Operations Aggregate Limit	\$200,000	
	Personal and Adverting Injury	\$100,000	
	Each Occurrence Limit	\$100,000	
	Fire Damage Limit	\$ 100,000	
	Medical Expenses	\$5,000	
CNA Surety Policy # 68463190	Public Official Position Schedule Bond:		1/02/96 Until Canceled
	President	\$ 40,000	
	Secretary-Treasurer	\$ 40,000	
American Central Insurance Company Policy # MEK490298	Building	\$ 9,200	2/1/00 -
	Personal Property	\$ 78,200	2/1/01

The accompanying notes are an integral part of this statement.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 6

**SCHEDULE OF WATER CUSTOMERS
For the Year Ended December 31, 2000**

As of December 31, 2000, Mount Hermon Water District had the following number of customers.

Residential	286
Commercial	<u>5</u>
Total Customers	<u><u>291</u></u>

**SCHEDULE OF WATER RATES
For the Year Ended December 31, 2000**

At December 31, 2000, Mount Hermon Water District had adopted the following rate schedule.

<u>Category of Service</u>	<u>Rate/mo.</u>
Residential:	
First 3,000 gallons	\$ 15.00
Over 3,000 gallons	\$ 3.00/thsd gallons
Commercial:	
First 20,000 gallons	\$ 30.00
Over 20,000 gallons	\$ 3.00/thsd gallons

The accompanying notes are an integral part of this statement.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 7

**Correction Action Plan for Current Year Audit Findings
For the Year Ended December 31, 2000**

Section I - Internal Control and Compliance Material to the Financial Statements

No findings for Section I.

Section II - Management Letter

Reference Number: 2000-M1

Description of Finding:

We noted that Mount Hermon Water District failed to increase their fidelity bond coverage from \$40,000 to \$50,000 for the president and secretary/treasurer per Rural Utilities Service letter dated July 6, 2000.

Corrective Action Planned (Response by Management):

We will notify our insurance agent to increase our fidelity bond to \$50,000 and to send a copy of the change endorsement directly to the District and Rural Utilities Service.

Anticipated Completion Date:

The required action will be taken immediately.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 8

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2000**

Section I - Internal Control and Compliance Material to the Financial Statements

Reference Number: 97-1

Fiscal Year Finding Initially Occurred: Fiscal Year Ending December 31, 1997

Description of Finding:

It was noted in the prior year audit that Mount Hermon Water District has not determined the amount of uncollectible accounts receivable, nor developed an aging of accounts receivable. We recommended that the water district once again notify the billing agent that an aging of accounts, on a monthly basis, is required for proper management and reporting of accounts receivable. During the audit for the fiscal year ending December 31, 2000, we noted that the billing register for the district has been modified to indicate a code for which accounts are "Current", "30 Days Past Due", "60 Days Past Due", and "90 Days Past Due". A summary of totals in each category is also provided. This is a significant improvement in reporting. However, we also noted that the aging is provided as of the date of the billing register, which was December 18 for the final billing register for year 2000. At month-end, it is necessary to determine which accounts are past due on the billing register, and cross-reference to the report of account balances at month-end to determine which accounts have been paid. For efficient management of past due accounts, we recommend that the billing register, or an aged receivables listing, be run at month-end.

Corrective Action Planned (Response by Management):

The board of commissioners of Mount Hermon Water District had indicated that they would notify the billing agent of the requirements for the month-end aged receivables report.

Corrective action taken: Partially.

Additional Explanation:

The water district has notified the billing agent that an aged receivables listing is required at month-end.

**MOUNT HERMON WATER DISTRICT
OF THE
PARISH OF WASHINGTON, LOUISIANA
Washington Parish Council
Franklinton, Louisiana**

Schedule 8 (Continued)

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2000**

Reference Number: 97-2

Fiscal Year Finding Initially Occurred: Fiscal Year Ending December 31, 1997

Description of Finding:

As of December 31, 1999, Mount Hermon Water District reported a deficit of \$(75,541) in unreserved retained earnings. For the fiscal year ending December 31, 2000, the deficit increased to \$(76,139). The bond requirements for the district specify that the water district must "...maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest remaining on the bonds in any future fiscal year..." . For the fiscal year ending December 31, 2000, this bond debt coverage factor was 136%, which is above the percentage required by applicable bond covenants.

We recommend that the board of commissioners continue to monitor revenues and expenses, and the effect of the rate adjustment implemented in May, 1999.

Corrective Action Planned (Response by Management):

The board of commissioners will continue to monitor the level of revenue and consider the need for a rate increase.

Corrective action taken: Partial.

Additional Explanation:

Continuing follow-up on this finding will be required until Mount Hermon Water District generates more funds to operate the water district.

Section II - Management Letter

No findings for Section II.

BRUCE HARRELL & CO.

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Mount Hermon Water District of the
Parish of Washington, Louisiana
Washington Parish Council
Franklinton, Louisiana

We have audited the general purpose financial statements of the Mount Hermon Water District of the Parish of Washington, Louisiana, as of and for the year ended December 31, 2000, and have issued our report thereon dated March 26, 2001. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mount Hermon Water District of the Parish of Washington, Louisiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the Summary Schedule of Prior Year Audit Findings as Reference Number 97-1, and 97-2.


Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mount Hermon Water District of the Parish of Washington, Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management with the Corrective Action Plan for Current Year Audit Findings as Reference No. 2000-M1.

BRUCE HARRELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
A Professional Accounting Corporation

**Board of Commissioners
Mount Hermon Water District
Washington Parish Council
Page 2**

This report is intended solely for the information of management, the Legislative Auditor, and the USDA Rural Utilities Service. However, this report is a matter of public record and its distribution is not limited.


Bruce Harrell and Company, CPAs
A Professional Accounting Corporation

March 26, 2001